Desktop Services and Business Operations

New Opportunities in Outsourcing

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Prepared by
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1881 Landings Drive
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U.S.A.

Desktop Services and Business Operations—New Opportunities in Outsourcing

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Desktop Services and Business Operations

New Opportunities in Outsourcing

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Structure of Outsourcing Market

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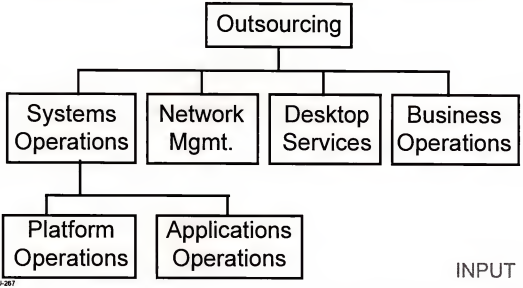
IS Outsourcing Components



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U.S. Outsourcing Market Forecasts

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Desktop Services

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Market Factors

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Desktop Outsourcing Case Studies

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JWP/Kodak

- Part III of large outsourcing contract (ISSC/DEC)
- Provides
  - -PC/workstation maintenance
  - -Software upgrade
  - -Help desk services

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EDS/GE

- Contract valued at $500 million (5 yrs.)
- Provides:
  - PC/workstation central purchasing
  - Establishment of product specs
  - PC/workstation maintenance
  - Software upgrade and training
  - Help desk

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Major Vendors

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Business Operations Outsourcing

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Business Operations Outsourcing

Definition:

1. Contracting with a vendor for operation of an entire business process
2. Process must contain at least 30% IT content

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Key Market Factors

- Client/server platforms
- Electronic commerce
- Business re-engineering

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Business Operations Outsourcing

- Role of BPR
  - BPR is catalyst to identify and focus on core processes and operations
  - Crucial targets for internal focus

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Business Operations Outsourcing

- Role of BPR
  - Non-critical operations become candidates for outsourcing
  - BPR acts as strong market driver for operations outsourcing

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Characteristics of Business Operations Outsourcing Projects

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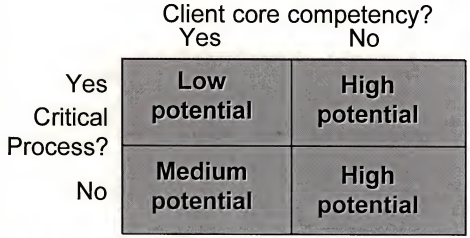
Potential for Business Process Outsourcing



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Business Operations Outsourcing Candidate Operations

Key Characteristic of Operation	Rating
Labor Intensive	4.1
High Technology Content	4.1
Common to Client's Industry	4.0
Periodic Peak Processing Requirement	3.7

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1 = Low, 5 = High

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Business Operations Outsourcing Candidate Operations

Key Characteristic of Operation	Rating
Critical to Daily Operations	3.4
Common to All Business Organizations	3.2
High Transaction Volumes	2.9
Provides Competitive Advantage	2.8

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1 = Low, 5 = High

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Business Operations Outsourcing

Potential Industries and Applications

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Business Operations Outsourcing Banking/Finance Market

- Outsourcing acceptance and market penetration
- Growing interest in operations outsourcing
- Processes outsourced
  - Check processing
  - Lockbox (funds repository) services

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Business Operations Outsourcing Insurance Market

- Extensive medical claims processing outsourcing
- Reluctance to outsource total data center operations
- Outsourced processes
  - Medical claimant interface
  - Payment disbursements

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Business Operations Outsourcing Health Care Market

- Cost reduction motives
- Need for enhanced technology
- Pressure for new services and treatment
  - -AIDS
  - -Geriatric

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Business Operations Outsourcing Health Care Market

- Affinity groups may turn to outsourcing
- Hospitals being managed by contract firms - 550 of 7,000
- Processes outsourced
  - Diagnostic imaging, claims processing, laboratory testing

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Business Operations Being Outsourced

- Customer Service
  - -Chevrolet - EDS
  - -SAAB - EDS
  - -Rockwell International - EDS

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Government Operations Being Outsourced (U.S.)

- Claims/Entitlement Management
  - -Blue Cross/Blue Shield Medicare payments
  - -Federal Emergency Management
  - -Black Lung Program
  - -Food Stamps distribution

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Government Operations Outsourcing (U.K.)

- U.K. mandates that outsourcing of operations be considered by local governments
  - Payroll, pensions, tax collecting, housing operations, finance

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Business Operations Outsourcing

Case Studies

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Business Process Outsourcing
Case Study #1

- General Motors, Chevrolet Division
  - Customer service desks located in 44 zone offices
  - Made decision to centralize, looked at outsourcing simultaneously

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Business Process Outsourcing
Case Study #1

- Outsourcing motivations
  - Headcount limitations
  - Senior GM employees did not want to stay in customer service
  - Costly GM benefits package
  - Customer service becoming more technology intensive

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Business Process Outsourcing
Case Study #1

- Benefits of outsourcing customer services
  - Significant reduction in cost of operations
  - Elimination of the turnover problem
  - Procedures, equipment being upgraded and revised

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Business Process Outsourcing
Case Study #2

- City of Orlando, Florida
  City-owned Print Shop
  - -Budget constraints
  - -Need for expansion
  - -Remote location

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Business Process Outsourcing
Case Study #2

- Benefits of outsourcing reproductions operations
  - Savings of $100,000 per year
  - Cost savings to 50% on individual projects
  - Technology upgrades are automatic
  - On-site copy center with backup

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Major Vendors

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User Perception of Business Operations—Capable Vendors

Vendor	No. of Mentions
EDS	7
Andersen Consulting	5
ISSC	4
CSC	3 (Federal)
Digital	2
SHL Systemhouse	1

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Business Operations Outsourcing Important Vendor Characteristics

Characteristic	Rating
Experience in Client's Industry	4.7
Industry Reputation	4.1
Prior Outsourcing Experience	4.0
Financial Soundness	4.0

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Business Operations Outsourcing Important Vendor Characteristics

Characteristic	Rating
Prior Business Operations Outsourcing	3.9
Prior Work with Vendor	3.0
Recommendation of a Consultant	2.3

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Business Operations Outsourcing

Conclusions

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Business Process Outsourcing—Conclusions

- Vendor focus
  - Client's external activity
  - Client's non-critical operations
  - Operations outside client's core competence

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Business Process Outsourcing—Conclusions

- Market growth will exceed that of other outsourcing services
- Partnership mentality is critical
- Major risks may exist; perceived vendor expertise, reputation and references will be key factors

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PETER A. CUNNINGHAM
PRESIDENT

PROFILE

- Mr. Cunningham has 28 years of experience in the information technology industry, including over 20 years of P&L responsibility in consulting.
- Mr. Cunningham provides information and advice to users and vendors of information technology. He specializes in analysis and forecasting of major trends in the industry, particularly in software, services, and the impact of information technology on people and organizations.
- In 1974, Mr. Cunningham founded INPUT to provide planning services, market research and consulting to buyers and vendors of IT products and services on a worldwide basis. The company specializes in analyzing and forecasting the applications and use of IT, particularly through the information services industry. This industry is now over $250 billion per year in size and is being driven by trends in outsourcing, systems integration, and downsizing. INPUT's mission is to provide its clients the ability to benefit from these and other IT trends and opportunities.
- Previously, he was a founder and President of J.W. Goodhew and Associates, Inc., a Washington, D.C. data processing consulting company specializing in the Medicaid, association, and manufacturing industries, as well as the federal government. Prior to that, Mr. Cunningham was with Management Science America, responsible for data processing projects in government and industry.
- Mr. Cunningham came to the United States with C-E-I-R, for whom he performed systems development and management.
- Mr. Cunningham started his career with ICL in 1964 in systems software development.

EDUCATION

- B.Sc. (Physics), Associate of the Royal College of Science, Imperial College, London
- M.P.A. (Technology of Management), The American University, Washington, D.C.

MEMBERSHIPS

- Fellow of the British Computer Society
- Member of the Worshipful Company of Information Technologists (Guild of the City of London)

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- **Software and Services Vendors**
- **U.S. Federal Government**
  - Procurement Plans (PAR)
  - Forecasts
  - Awards (FAIT)
- **Commercial Application (LEADS)**

Custom Projects

For Vendors—analyze:

- **Market strategies and tactics**
- **Product/service opportunities**
- **Customer satisfaction levels**
- **Competitive positioning**
- **Acquisition targets**

For Buyers—evaluate:

- **Specific vendor capabilities**
- **Outsourcing options**
- **Systems plans**
- **Peer position**

Other Services

Acquisition/partnership searches

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Structure of Outsourcing Market

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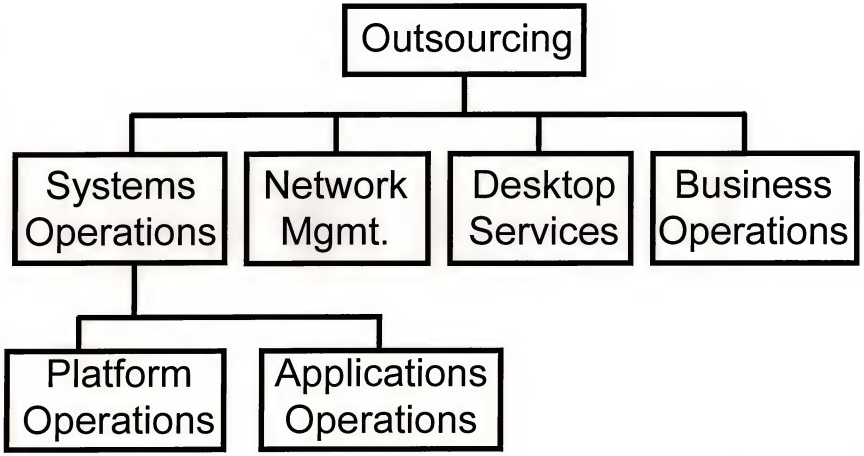
IS Outsourcing Components



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U.S. Outsourcing Market Forecasts

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Desktop Services

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Market Factors

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Desktop Outsourcing Case Studies

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Major Vendors

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Business Operations Outsourcing

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Business Operations Outsourcing

Definition:

1. Contracting with a vendor for operation of an entire business process
2. Process must contain at least 30% IT content

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Key Market Factors

- Client/server platforms
- Electronic commerce
- Business re-engineering

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Business Operations Outsourcing

- Role of BPR
  - BPR is catalyst to identify and focus on core processes and operations
  - Crucial targets for internal focus

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Business Operations Outsourcing

- Role of BPR
  - Non-critical operations become candidates for outsourcing
  - BPR acts as strong market driver for operations outsourcing

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Characteristics of Business Operations Outsourcing Projects

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Potential for Business Process Outsourcing

Critical Process?	Client core competency? Yes	Client core competency? No
Yes	Low potential	High potential
No	Medium potential	High potential

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Business Operations Outsourcing Candidate Operations

Key Characteristic of Operation	Rating
Labor Intensive	4.1
High Technology Content	4.1
Common to Client's Industry	4.0
Periodic Peak Processing Requirement	3.7

1 = Low, 5 = High

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Business Operations Outsourcing Candidate Operations

Key Characteristic of Operation	Rating
Critical to Daily Operations	3.4
Common to All Business Organizations	3.2
High Transaction Volumes	2.9
Provides Competitive Advantage	2.8

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Business Operations Outsourcing

Potential Industries and Applications

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Business Operations Outsourcing Banking/Finance Market

- Outsourcing acceptance and market penetration
- Growing interest in operations outsourcing
- Processes outsourced
  - Check processing
  - Lockbox (funds repository) services

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Business Operations Outsourcing Insurance Market

- Extensive medical claims processing outsourcing
- Reluctance to outsource total data center operations
- Outsourced processes
  - Medical claimant interface
  - Payment disbursements

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Business Operations Outsourcing Health Care Market

- Cost reduction motives
- Need for enhanced technology
- Pressure for new services and treatment
  - -AIDS
  - -Geriatric

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Business Operations Outsourcing Health Care Market

- Affinity groups may turn to outsourcing
- Hospitals being managed by contract firms - 550 of 7,000
- Processes outsourced
  - Diagnostic imaging, claims processing, laboratory testing

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Business Operations Being Outsourced

- Customer Service
  - Chevrolet - EDS
  - SAAB - EDS
  - Rockwell International - EDS

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Government Operations Being Outsourced (U.S.)

- Claims/Entitlement Management
  - Blue Cross/Blue Shield Medicare payments
  - Federal Emergency Management
  - Black Lung Program
  - Food Stamps distribution

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Government Operations Outsourcing (U.K.)

- U.K. mandates that outsourcing of operations be considered by local governments
  - Payroll, pensions, tax collecting, housing operations, finance

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Business Operations Outsourcing

Case Studies

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Business Process Outsourcing
Case Study #1

- General Motors, Chevrolet Division
  - Customer service desks located in 44 zone offices
  - Made decision to centralize, looked at outsourcing simultaneously

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Business Process Outsourcing
Case Study #1

- Outsourcing motivations
  - Headcount limitations
  - Senior GM employees did not want to stay in customer service
  - Costly GM benefits package
  - Customer service becoming more technology intensive

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Business Process Outsourcing
Case Study #1

- Benefits of outsourcing customer services
  - Significant reduction in cost of operations
  - Elimination of the turnover problem
  - Procedures, equipment being upgraded and revised

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Business Process Outsourcing
Case Study #2

- City of Orlando, Florida
  City-owned Print Shop
  - Budget constraints
  - Need for expansion
  - Remote location

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Business Process Outsourcing
Case Study #2

- Benefits of outsourcing reproductions operations
  - Savings of $100,000 per year
  - Cost savings to 50% on individual projects
  - Technology upgrades are automatic
  - On-site copy center with backup

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Major Vendors

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User Perception of Business Operations—Capable Vendors

Vendor	No. of Mentions
EDS	7
Andersen Consulting	5
ISSC	4
CSC	3 (Federal)
Digital	2
SHL Systemhouse	1

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Business Operations Outsourcing Important Vendor Characteristics

Characteristic	Rating
Prior Business Operations Outsourcing	3.9
Prior Work with Vendor	3.0
Recommendation of a Consultant	2.3

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Business Operations Outsourcing

Conclusions

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Business Process Outsourcing—Conclusions

- Vendor focus
  - Client's external activity
  - Client's non-critical operations
  - Operations outside client's core competence

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Business Process Outsourcing—Conclusions

- Market growth will exceed that of other outsourcing services
- Partnership mentality is critical
- Major risks may exist; perceived vendor expertise, reputation and references will be key factors

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JWP/Kodak

- Part III of large outsourcing contract (ISSC/DEC)
- Provides
  - PC/workstation maintenance
  - Software upgrade
  - Help desk services

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EDS/GE

- Contract valued at $500 million (5 yrs.)
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  - PC/workstation central purchasing
  - Establishment of product specs
  - PC/workstation maintenance
  - Software upgrade and training
  - Help desk

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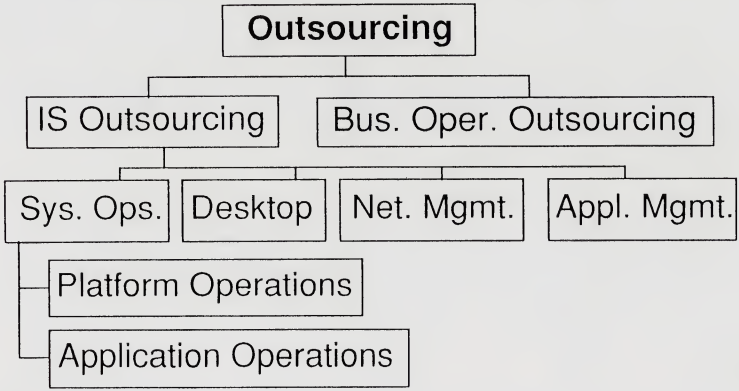

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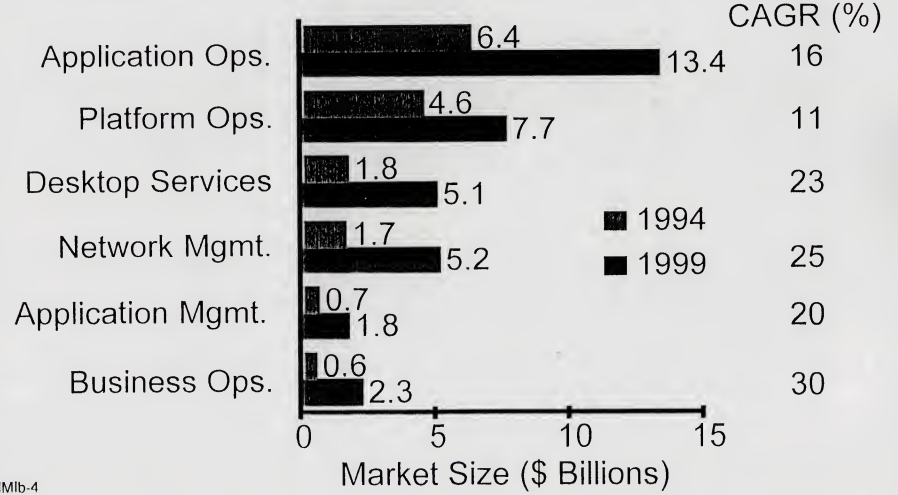
Outsourcing Market, 1994-1999



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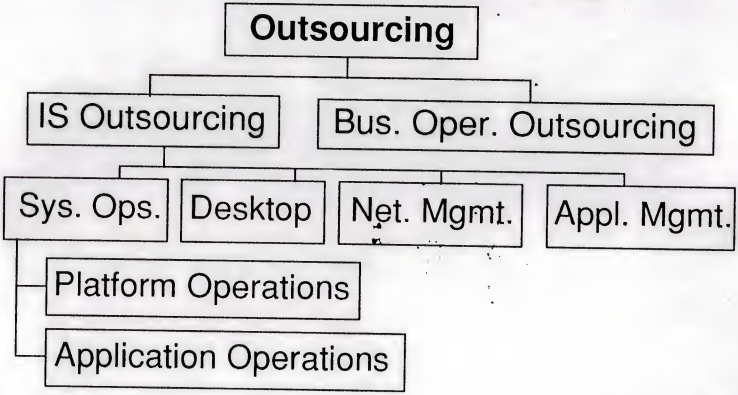
Outsourcing Service Categories



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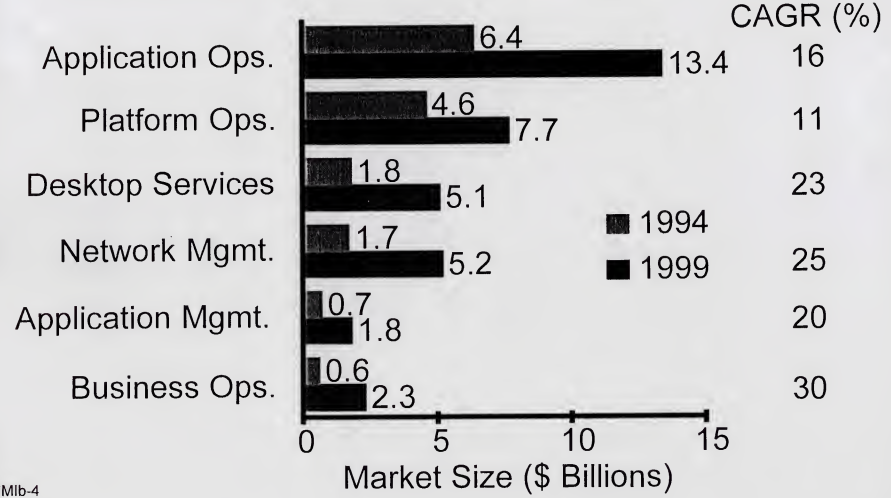
Outsourcing Market, 1994-1999



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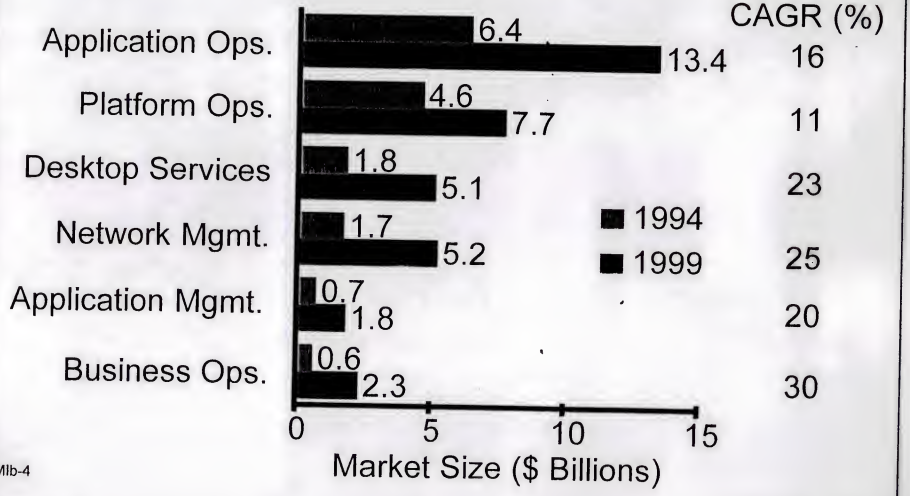
Outsourcing Market, 1994-1999



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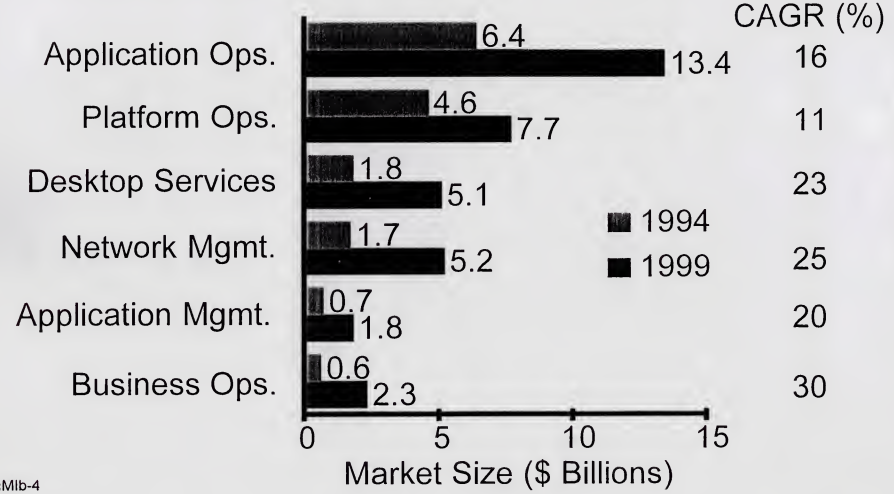
Outsourcing Market, 1994-1999



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